

**David Roth, Chairman  
California Student Aid Commission  
Prepared Testimony before the Little Hoover Commission  
Tuesday, January 26, 2005**

Thank you for the opportunity to comment on Governor Schwarzenegger's executive reorganization plan for boards and commissions as it relates to the California Student Aid Commission.

First, as the presiding Commission Chair, on behalf of all the members of the California Student Aid Commission, I wish to commend Governor Schwarzenegger for his efforts to promote efficiency in state government. Our goal, too, is to improve public services and benefits for the students, families and postsecondary institutions we serve.

However, the Student Aid Commission believes the reorganization plan submitted by the Governor is seriously flawed and would result in a great disservice to California Students. I will enumerate the reasons as I continue on with my statement. It is important to realize the Student Aid Commission was created to allow for a balance between legislative and executive power and to ensure the full participation of the public in a process that must serve all Californians.

Because the Student Aid Commission is the primary state agency charged with administering student financial aid in California, this plan would not eliminate duplication with other state services, there is none. The Student Aid Commission ensures the effective and efficient administration of federal and state authorized financial aid, including grants, student loans, and work study programs. In addition, it provides leadership on financial aid issues and makes public policy recommendations concerning financial aid programs.

As indicated by the CPR Commission in its November 2004 report to the Governor, the Student Aid Commission was successfully reengineered seven years ago, during the administration of former Republican Governor Pete Wilson. The CPR Commission recommended no further changes to the Student Aid Commission.

In 1997, the California Legislature and Governor Wilson authorized the Student Aid Commission to establish EdFUND as a non-profit, public benefit auxiliary corporation to handle its participation in the federal student loan program; a remarkable example of tremendously successful government reform.

The Commission-EdFUND enterprise has been a major success and today generates millions of dollars of revenue for California. For example, the 2004-05 Budget Act included a one-time transfer of \$146.5 million from the Student Loan Operating Fund (SLOF) to fund Cal Grant awards, providing a major savings in General Fund spending without reducing grant funds for students. What's more, the Student Aid Commission's entire administrative budget is currently funded entirely by the Student Loan Operating Fund -- at no cost to the state General Fund. The Commission is already saving state General Fund resources as well as leveraging local and federal funding for student outreach, student loan services, and grants.

I am also pleased to report that the Governor and the Legislature in September 2004 enacted legislation designed to ensure the long-term viability of the Student Aid Commission and EdFUND and to sustain our ability to continue providing public benefits to students and institutions.

While the report under your review is not specific as to its treatment of the Student Aid Commission's relationship with our loan auxiliary EdFUND and the federal student loan guaranty services currently performed by EdFUND, the Commission strongly and respectfully opposes the specific recommendations for a number of reasons. We would caution the Little Hoover Commission to carefully contemplate any proposal that would:

- Eliminate a state agency that has generated more than \$399 million in revenue for the state for public service initiatives since 1997 (\$198 million of which would have otherwise been General Fund expenditures);
- Result in the loss of potential future revenues generated by the Student Aid Commission and EdFUND that allow us to provide direct public benefits to students and institutions, such as Cal-SOAP, statewide training and materials, Cal Grant public awareness and various outreach grants and programs;
- Pass up at least \$12 million in matching federal financial aid funds;
- Reduce or eliminate direct public accountability and oversight by eliminating a commission directly responsible and responsive to the public and to the various segments of higher education; and
- Rollback the legislation recently signed by Governor Schwarzenegger giving the Student Aid Commission and EdFUND the authority to develop diversified financial aid services and products to generate even more revenue for student and public benefits.

Creation of a new office will cost the State of California money. Currently the Student Aid Commission is funded from the Student Loan Operating Fund. A number of grant delivery services are provided through the Commission's auxiliary as intended by its enabling legislation.

Clearly, Commissioner and therefore public representation in relation to the Cal Grant programs, student loans, and our specialized loan-forgiveness and other programs has been an important component of our success. The students we serve represent a wide spectrum of people – traditional four-year college students; community college, trade and vocational school students; and many who are the first in their families to attend college. It is essential that these students understand their financial aid options and that they can expect continuity and consistency in the distribution of aid.

The Student Aid Commission and EDfUND clearly advance the interests of the people of California by providing financial aid to students who would not otherwise be able to afford a postsecondary education. Creating an educated citizenry is clearly in the best interest of all Californians and is key to the state's economic recovery.

Let me take a few moments to explain our story, a true reform success story and the basis for our opposition to the recommendations to consolidate the Student Aid Commission into the Office of Higher Education and Financial Aid.

The Student Aid Commission was established in 1955, as the "State Scholarship Commission." The original crafters of the Commission envisioned a fully representative, publicly accountable, diverse, and independent body. The Commission was specifically designed to be broadly and equitably representative of the general public and of public and private nonprofit and proprietary institutions of higher education-including community colleges, vocational schools, and four-year institutions of higher education and branches thereof. The Commission provides direct service to schools without any additional layers of bureaucracy.

When the 1960 Master Plan was written, student financial aid was uncomplicated and very limited, and student aid policy formulation could remain with the Governor, the Legislature, and the segments. In the intervening years, student financial aid has become a complex matter of substantial importance to many students and to every postsecondary institution, public and private. Decisions as to which students are to receive aid, in what amounts, in what forms, at what institutions, and for what studies are now major factors in determining not only access to postsecondary education but the structure of the postsecondary enterprise itself.

Today, the Student Aid Commission is best known for administering the \$800 million Cal Grant Program, ensuring that more than a quarter of a million new and renewing Cal Grant awardees statewide obtain the financial aid they are eligible to receive.

**For many bright students from low-income families, receiving a Commission letter that says they're eligible for a Cal Grant award makes them believe they can achieve the dream of a college education. For many talented, deserving students, the Cal Grant award letter is their ticket to college that they and their families could not otherwise afford.**

**As I noted earlier, seven years ago the Student Aid Commission received authorization to establish EdFUND to serve as the Commission's guaranty services provider in the FFEL Program. Today, EdFUND serves more than 4,600 institutions nationwide, including 1,285 in California. Last year, EdFUND processed more than \$5.7 billion in new student loans nationally and now oversees assets totaling more than \$21 billion.**

**To date, EdFUND-generated revenue has funded more than \$399 million in public service initiatives, including approximately \$198 million for programs or spending that otherwise would have been state General Fund expenditures.**

**Those expenditures include funding for the following key programs: the Cal Grant public awareness program; the California Student Opportunity and Access Program, known as Cal-SOAP; and more recently, campus-based outreach and college preparation programs.**

**It is against this record of performance, innovation and government efficiency, providing tremendous public benefits and great savings to taxpayers, that the recommendation before you now has been made.**

**With all due respect, it is our belief that the current consolidation proposal is, in large part, a recycled proposal that has been rejected previously by the Legislature and the CPR Commission. Furthermore, it fails to consider the substantial public benefits that, under the Student Aid Commission's leadership, are now funded by the Commission-EdFUND enterprise.**

**I stand by the statement I made to the CPR Commission – if anyone were to argue that the Student Aid Commission is not made up of a diverse, talented and deeply committed group of people - they would be sorely mistaken. I have the honor of chairing a Commission of people who volunteer significant portions of their lives to this work - people who have full and rewarding careers, but for whom their service to the Commission is a high and noble calling. There can be no State benefit that will come from the elimination of a Commission responsible to the people, composed of experts in their fields who are dedicated solely to ensuring that each and every student can and will achieve their potential.**

**And I cannot overstate our conviction that elimination of the Student Aid Commission will significantly harm state workforce preparation efforts. One of the Governor's stated goals is to increase transparency of state government. This proposal would in fact reduce transparency. Under the current structure, policy decisions, which directly affect students and families, are made in a public setting and policy recommendations are vetted through public comment. This process protects the public's interest in financial aid and services.**

**The Student Aid Commission is the cornerstone for sustaining and improving a college-going culture in California, enabling more students who are eligible to attend college to gain access to quality postsecondary education and training. To eliminate the Commission removes key representation and accountability to the students and the higher education institutions we serve.**

**Depending on the organizational structure proposed, statewide and campus-based financial aid assistance programs will either be jeopardized or reverted to General Fund expenditures.**

**Each year, the Student Aid Commission provides and coordinates hundreds of workshops to assist students with completion of the requisite federal financial aid application, these would be eliminated.**

**At the Commission and EdFUND, our mantra is simple: We put students first. And we have never wavered from our mission: to make higher education financially accessible to all eligible California students.**

**The best example of these principles is the Commission's first-in-the-nation policy of waiving the one percent guarantee fee on federal student loans.**

**Adoption of that policy has saved student borrowers approximately \$163 million since 1996.**

**In contrast, EdFUND's chief competitor announced earlier this year that it would reinstate the guarantee fee, costing their student borrowers more money.**

**In closing, I would like to offer that the Student Aid Commission is already considering ideas to streamline the Cal Grant award process and we would certainly consider other reform proposals that would reduce costs and increase efficiencies in current operations or expand benefits for students, but we cannot and will not support the current proposal that would achieve none of these.**

**However, let me reassure you that we are ready to do our part to have the best government possible to provide the best services and benefits to students and institutions.**

**Thank you for your consideration of our input and concerns.**